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October 14, 2005

Mary L. Cottrell, Secretary
Massachusetts Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, MA 02110

RE: Fitchburg Gas and Electric Light Company
D.T.E. 05-64

Dear Secretary Cottrell:

Enclosed please find Fitchburg Gas and Electric Light Company's Response DTE 1-1 to the Department's first set of information requests.

Thank you for your attention to this matter.

Sincerely,

Meabh Purcell

cc: Jody Stiefel, Esq, D.T.E.
Alexander Cochis, Office of The Attorney General
Laurence M. Brock
Linda McNamara

BS105334

Request No. DTE 1-1

Refer to the pre-filed testimony of Laurence M. Brock at 8-9. Please provide the number of pension plans maintained by Unitil Service Corporation ("Unitil").

If Unitil maintains more than one pension, provide the funding targets, funding pace, regulatory recovery (where applicable) and required contribution policy for each of the service company pension plans.

If Unitil maintains one pension plan, please provide the following information:

(a) Does the plan have different funding targets for utility participants in the plan versus non-utility participants? If the answer if affirmative, provide an analysis of each funding target.
(b) Does the plan have a different funding pace for utility participants in the plan versus non-utility participants? If the answer is affirmative, provide an analysis of each funding pace.
(c) Are required contributions determined for the plan as a whole or by the minimum funding requirements of each of the participants? If contributions are determined for the plan as a whole, explain, in detail, how total plan contributions are allocated between plan participants.
(d) Explain, in detail, why some plan participants have prepaid pension balances while others have pension liabilities.

Response:

Unitil Corporation and certain of its subsidiaries sponsor one defined benefit pension plan, the Unitil Corporation Retirement Plan ("Pension Plan" or "Plan"), which provides monthly retirement income to employees who qualify for a retirement benefit. The Pension Plan is a consolidated retirement plan that offers a standardized pension benefit to all employees of three of Unitil Corporation's subsidiaries, including: the employees of its two operating utilities, Unitil Energy Systems, Inc., a New Hampshire utility ("UES"), and Fitchburg Gas and Electric Light Company ("FG&E"), and the employees of Unitil Service Corp. ("Service Company"), its integrated service company subsidiary. The Service Company provides a variety of administrative and professional services, including regulatory, accounting, human resources, engineering, operations, technology and management services, at cost, to the two operating utilities and, to a relatively minor extent, the other non-utility affiliates of Unitil Corporation. None of these other non-utility affiliates have employees nor are they members of the Pension Plan.

The Pension Plan retirement benefits are based upon an employee's level of compensation and length of service. The Pension Plan covers approximately 673 people, including 219 people who are currently receiving benefits. The Pension Plan covers Union and Non-Union employees equally and the provisions of the plan and the benefits provided under the plan apply to management and non-management in substantially the same way. Certain predecessor union plan provisions are grandfathered in accordance with IRS regulations.

The Pension Plan maintains an investment trust fund for the management of the plan's assets and the funding of current and future retiree pension benefits. Oversight and monitoring of the investments of the trust funds is the responsibility of the Unitil Corporation Retirement Plan Committee (the "Committee") in conformance with the Employee Retirement Income Security Act ("ERISA"), which is appointed annually by the Unitil Corporation Board of Directors (the "Board"). This Committee consists of four members: two outside Board members, Unitil Corporation's Chief Financial Officer, and the Vice President of Administration. The Committee makes recommendations for annual Pension Plan funding contributions to the Board.

The Committee's Pension Plan funding recommendations are based upon company guidelines. The guidelines in effect for 2004 are attached as Exhibit DTE 1-1-A, "Pension Plan Funding Process, September, 2004."

As noted above, Unitil maintains one Pension Plan, and:

(a) The Plan does not have different funding targets for the two operating utility participants in the plan versus the Service Company. The cash funding of the Pension Plan is provided by each of these three subsidiaries and allocated among them on a pro-rata basis based on the Net Periodic Pension Expense level each year, as determined by the Plan's actuary, for each subsidiary. A copy of the Committee's recommendation to the Board for 2004 for FG&E is attached as Exhibit DTE 1-1-B, "December 2004 Board Action: FGE." An analysis of the 2004 Pension Plan funding amount is provided as Exhibit DTE 1-1-C, "Funding Analysis 2004."

(b) The Plan does not have a different funding pace for the two operating utility participants versus the Service Company. As indicated in the attached Exhibits DTE 1-1-A through DTE 1-1-C the funding pace of Pension Plan contributions for each participant in the plan is developed in concert with the Committee's overall Pension funding recommendation for the consolidated Plan.

(c) Required Pension Plan contributions are determined for the Plan as a whole and allocated among subsidiaries with Plan participants as explained in (a) above.

(d) The principal reason that some Unitil subsidiaries with Plan participants have prepaid pension balances, specifically the two operating utilities, UES and FG&E, while the Service Company has pension liabilities, is that over the years since the Service Company was formed employees have been transferred from FG&E and UES to the Service Company while the cumulative Prepaid Pension asset balances have remained on the balance sheets of FG&E and UES, respectively. The Service Company was formed in 1984 as an integrated service company to provide a variety of administrative and professional services, including regulatory, accounting, human resources, engineering, operations, technology and management services, to the affiliated companies of Unitil Corporation. As these functions were consolidated into the Service Company from FG&E and UES to improve efficiencies in the delivery of these services, employees were transferred from the FG&E and UES payrolls to the Service Company payroll. However, the cumulative Prepaid Pension balances recorded by FG&E and UES remained on the balance sheets of those companies.

Person Responsible: Laurence M. Brock **Date: October 14, 2005**

Pension Plan Funding Decision Process
September, 2004

As a general matter, the contribution levels for Pension Plans are governed by ERISA laws, regulations and IRS rules. The purpose of this narrative is to document the company's current decision making process.

The Company's key funding objectives in determining the level of annual funding are:

Funding Target: A funding level approximately equal to the FAS 87 Pension Expense (first line in the table below) puts the Plan on a path to maintain and improve its funded status under a number of valuation and plan performance scenarios and provides a margin against continued deterioration of the Plan's funded status. Ideally, the Company would like to have the Plan maintain a funding ratio of between 90% and 100% of the Plan's Current Liability (shown in the table below).

Funding Pace: The chosen funding level should reasonably balance the current year tax deductible contribution level with projected funding levels in future years, resulting in a contribution policy that is consistent with our pension costs, to achieve and maintain the funding target over the planning horizon.

Regulatory Recovery: The chosen cash funding level should be consistent with the recovery of pension costs in rates in accordance with existing regulatory precedence.

Required Contributions: The chosen funding must be at least equal to the Minimum Required Contribution.

The following Pension Funding Table is assembled to assist the Unitil Corporation Retirement Plan Committee in the funding decision process:

<u>Pension Funding Table:</u>

FAS 87 Expense – The 2004 number comes from the 2004 Actuarial Valuation Report.

Assets – Market – The 2003 number is the Market Value as of 1/1/2004 from the 2004 Actuarial Valuation Report. The 2004 number is projected forward from this 1/1 number by adding 1) earnings equal to the Plan's Expected Long-Term Rate of Return on Assets (8.75% in 2004) plus 2) expected Contributions for 2004 minus 3) expected payments during 2004.

Assets – Smoothed – The 2003 number is the Actuarial Value of Assets as of 1/1/2004. The 2004 number is the Actuarial Value of Assets Projected to 12/31/04 from the Actuarial Valuation Report, plus the anticipated contribution for 2004.

PBO – The 2003 number is the PBO at 1/1/04 from the 2004 Actuarial Valuation Report. The 2004 number is equal to the 2003 number plus 8% (the historical PBO growth rate).

Current Liability – The 2003 number is the Current Liability as of 1/1/04 from the 2004 Actuarial Valuation Report. The 2004 number is the Current Liability as of 12/31/04 from the 2004 Actuarial Valuation Report.

Funding Ratio – The 2003 number is from the 2004 Actuarial Valuation Report – shown as the Funded Percentage as of 1/1/04. The 2004 Funding Ratio is the 2004 Assets Smoothed divided by the 2004 Current Liability.

Benefits & Expenses Paid – The 2003 number is the total Disbursements from the 2004 Actuarial Valuation Report. The 2004 number is estimated based upon current payment levels.

Normal Cost – The 2004 number is from the 2004 Actuarial Valuation Report.

Participants – The 2004 number is from the 2004 Actuarial Valuation Report.

Min. Required Contribution – The 2004 number is from the 2004 Actuarial Valuation Report.

Max. Deductible Contribution – The 2004 number is from the 2004 Actuarial Valuation Report.

Actual Contribution – The funding level is arrived at by the Unitil Corporation Retirement Plan Committee and approved by the Board of Directors of Unitil Corporation and each of its subsidiaries.

	1999	**2000**	**2001**	**2002**	**2003**	**2004**
FAS 87 Expense	$(528,065)	$(876,347)	$(716,411)	$(166,472)	$1,106,827	$1,981,667
Assets – Market	$46,050,084	$45,455,914	$41,057,388	$34,243,649	$39,336,662	$41,678,620
Assets – Smoothed	$46,474,633	$45,665,941	$43,024,228	$38,925,915	$37,410,088	$39,981,600
PBO	$33,972,373	$35,083,813	$39,652,201	$43,130,520	$47,753,159	$51,573,411
Current Liability	$36,008,934	$37,867,174	$41,153,483	$39,742,442	$42,565,112	$44,755,597
Funding Ratio – Assets Smoothed divided by Current Liability	129.1%	120.6%	104.5%	97.9%	87.9%	89.3%
Benefits & Expenses Paid	$2,295,552	$2,515,650	$2,482,709	$2,443,808	$2,534,197	$2,600,000
Normal Cost	$821,203	$1,047,126	$1,088,969	$1,169,041	$1,223,175	$1,202,970
Participants	649	660	661	675	677	679
Min. Required Contribution	$0	$0	$0	$0	$0	$0
Max. Deductible Contribution	$0	$0	$0	$0	$2,100,169	$6,773,997
Actual Contribution	$0	$0	$0	$0	$1,200,000	$2,000,000

December 2004 Board Action: FGE

Proposed Action A: Pension Funding

Summary:

Management is seeking the Board's authorization to make cash contribution of $2.0 million into the Unitil Corporation Defined Benefit Pension Plan. The cash funding for the Plan would be provided by each of Unitil Corporation's subsidiaries having employees covered by the Plan, and include: Unitil Energy Systems, Fitchburg Gas and Electric Light Company and Unitil Service Corp. The allocation of cash funding would be based on the 2004 Net Periodic Pension Expense level for each subsidiary as determined by the Plan's actuary for the Plan year ending December 31, 2004 as follows:

Unitil Pension Plan Subsidiary	2004 Net Periodic Pension Expense	2004 Cash Funding Allocation (%)
UES	$ 682,338	35%
FG&E	579,401	29%
USC	719,928	36%
Total	$ 1,981,667	100%

The appropriate Board resolutions authorizing these cash funding levels are separately included in each subsidiary's December 2004 Board agenda as an action item.

Background & Discussion:

As a general matter, the contribution levels for Pension Plans are governed by ERISA laws, regulations and IRS rules. Each year the Company's actuary performs a valuation of the Plan to, among other things, determine the "Minimum Required Contribution" under ERISA and the "Maximum Tax Deductible Contribution" under IRS rules. As recently as 2002, the Plan's favorable funded status resulted in actuarial valuations for the Plan wherein the minimum required contribution under ERISA was $0. In fact, from 1997 - 2002, the Company had been prohibited under ERISA and IRS rules from making any tax deductible cash contributions to the Plan.

However, the negative impact on Plan assets of 3 consecutive years of poor investment returns during the period 2000 to 2002, coupled with tightened year-end disclosure assumptions (e.g. lower discount rate, lower rate of return on assets) for pension liability measurement purposes have resulted in a significant change in the overall funded status of the Plan. The following Table demonstrates this dramatic change in the Pension Plan's funded status and the cost of the Plan over the past five years using a number of key pension valuation parameters.

December 2004 Board Action: FGE

Unitil Corporation Defined Benefit Plan
Pension Statistics 2000 – 2004

	2000	2001	2002	2003	2004*
FAS 87 Expense	$(876,347)	$(716,411)	$(166,472)	$1,106,827	$1,981,667
Assets – Market	$45,455,914	$41,057,388	$34,243,649	$39,336,662	$41,400,000
Assets – Smoothed	$45,665,941	$43,024,228	$38,925,915	$37,410,088	$44,867,000
PBO	$35,083,813	$39,652,201	$43,130,520	$47,753,159	$52,000,000
Current Liability	$37,867,174	$41,153,483	$39,742,442	$42,565,112	$44,755,597
Current Liability Funding Ratio	120.6%	104.6%	97.9%	87.9%	99.8%
Benefits & Expenses Paid	$2,515,650	$2,482,709	$2,443,808	2,534,197	$2,600,000
Normal Cost	$1,047,126	$1,088,969	$1,169,041	$1,223,175	$1,202,970
Participants	660	661	675	677	679
Minimum Required Contribution	$0	$0	$0	$0	$0
Maximum Deductible Contribution	$0	$0	$0	$2,100,169	$6,773,997
Annual Contribution	$0	$0	$0	$1,200,000	$2,000,000

* Asset and Liability values and Benefits & Expenses Paid for 2004 are projected.

As shown in the Table above, over this five year period, the funded status of the Plan, as measured by the Current Liability funding ratio, declined from 120.6% to a projected ratio for year-end 2004 of 99.8% . Nevertheless, the minimum required end-of-year contribution determined under ERISA for the 2004 Plan year is $0, primarily reflecting the Plan's funding credit balance calculated in accordance with ERISA. A funding credit balance generally shows the employer contributions have been equal to or in excess of the *minimum* contributions required by law and the credit may be drawn upon to make future contributions. The maximum tax deductible contribution calculated in accordance with IRS rules for 2004 is $6,773,997.

Also of note is the dramatic change in FAS 87 Pension Expense over the last five years. FAS 87 Pension Expense is the level of pension costs the Company records for accounting purposes under GAAP. As shown, the cost of the Plan has changed

December 2004 Board Action: FGE

from income of $876,347 in 2000 to an expense of $1,981,667 in 2004, a net change of $2.9 million in four years. Moreover, the projected FAS 87 pension expense for 2005 (not shown in Table) is projected to be approximately $2.0 million. While FAS 87 expense and ERISA/IRS requirements are not the same, both have been similarly impacted in direction and magnitude by the decline the Plan's overall funded status

The funding recommendation of $2.0 million is designed to achieve the following key funding objectives:

- Funding Target. A funding level of $2.0 million is approximately equal to the 2004 pension expense of $1981,667 and puts the Plan on a path to maintain and improve its funded status under a number of valuation and plan performance scenarios and provides a margin against continued deterioration of the Plan's funded status.
- Funding Pace. A funding level of $2.0 million will reasonably balance the 2004 tax deductible contribution level with projected funding levels in future years, resulting in a contribution policy that is consistent with our pension costs, to achieve and maintain the funding target over the planning horizon.
- Regulatory Recovery. A funding level of $2.0 million provides an appropriate cash basis for recovery of pension costs in rates in accordance with existing regulatory precedence.

Financial Impact:

A pension contribution of $2.0 million will initially be funded from operating cash flows until such time as this funding level is fully reflected in rates as part of either a base rate case or and approved reconciliation mechanism as recently adopted in Massachusetts for ratemaking treatment of pension costs.

Recommendation & Resolution:

Management recommends the Board authorize a cash contribution of $2.0 million into the Unitil Corporation Defined Benefit Pension Plan.

Resolution:

That the officers of this Company be and they are, and each of them singly is, hereby authorized in the name and on behalf of this Company to make a cash contribution of up to $585,000 into the Unitil Corporation Defined Benefit Pension Plan, such contributions to be made from time to time and in such amounts as the said officers or officer so acting shall deem advisable; and further

That the officers of this Company be and they are, and each of them singly is, hereby authorized in the name and on behalf of this Company to take all such further actions as may be necessary, advisable or proper to carry out the intent of the foregoing vote.

Exhibit DTE 1-1-C

Unitil Corporation
Pension Funding - Distribution Among Subsidiary Companies
2004

The distribution of annual pension funding among Unitil's subsidiary companies is based on the relative percentages of total FAS 87 pension expense as determined by the Company's actuaries.

	2004			
	FAS 87 Expense		Pension Funding	
	$	%	$	%
UES	$ 682,338	34.4%	$ 688,000	34.4%
FGE	579,401	29.2%	585,000	29.3%
USC	719,928	36.3%	727,000	36.4%
Total	**$ 1,981,667**	100.0%	**$ 2,000,000**	100.0%